11/25/86 C5150-3


# Discount Store News®

*THE NEWSPAPER OF DISCOUNT RETAILING*

VOL. 25, NO. 23 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | $2 per copy | November 24, 1986

*Shop Television Network host Pat Boone (c) and co-host Dr. Ronald Lawrence discuss an item being shown on The Better Shopping Show's Better Health & Fitness segment.*

## New TV Retailing Show Stars Celebrity Hosts

By ARTHUR MARKOWITZ

LOS ANGELES — Shop Television Network (STN) has launched a new discount merchandising format that features two innovations in the fast changing teleshopping field:

- The prerecorded teleshopping program integrates merchandising and entertainment so that a number of related products are marketed together by Pat Boone and celebrity co-hosts and guests in segments of 15 minutes.
- The merchandise for the most part is current goods or new products that STN is among the first to offer, rather than the extensive closeouts marketed by other programs.

STN president Michael Rosen said teleshopping programs "have to be network quality in their production and presentation if they are to draw viewers from regular TV shows.

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## Designer Depot Failure Shows Off-Price Shakeout Continues

By KAREN PAXTON

TROY, Mich. — K mart's plans to close its 79-unit Designer Depot off-price apparel chain signals that the shakeout among off-price apparel chains continues.

Industry sources said they had expected the announcement and also predicted that a few chains that lack the deep pockets of a large parent company to eventually fall by the wayside.

K mart's recently announced streamlining also included the sale of its profitable food operations, Furr's Cafeterias and Bishop Buffets, to Calvalcade Holdings for $237.5 million. K mart said it will use the proceeds to redeem some high-cost, long-term debt.

*(Continued on page 4)*

*K mart's four-year-old Designer Depot off-price apparel division will be phased out by the end of next January. The 79-unit chain is the latest in a long list of failed off-price ventures.*

## Housewares Show Their True Colors

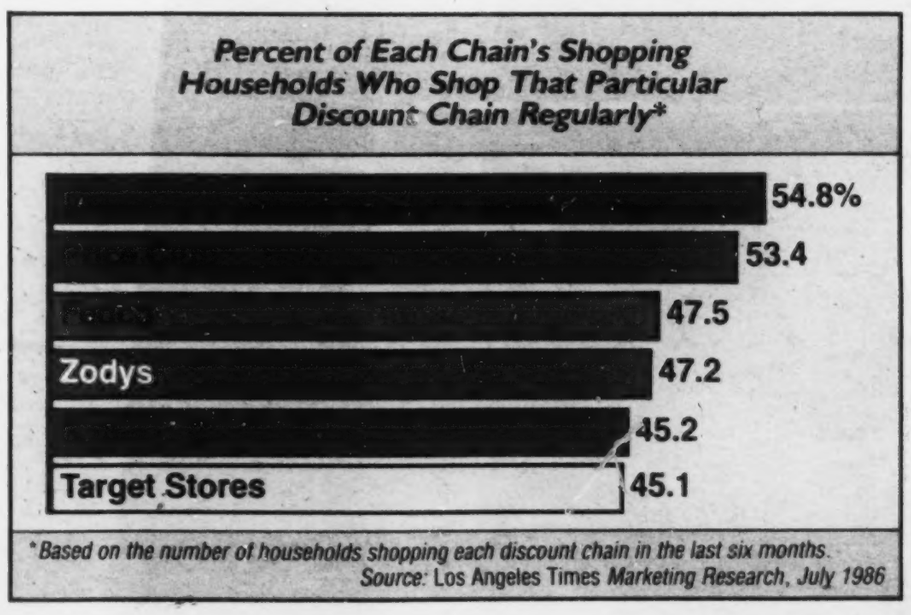
CHICAGO — New colors on old signs failed to catch the eye of most buyers at the National Housewares Manufacturers Association show—but new colors on old products did.

Despite all the hoopla over a new color-coded show format, buyers came away unimpressed because they found they had to do more footwork at the show, rather than less.

The color coded aisles and merchandise classification system—intended to help get buyers off their feet by condensing the area they covered—worked worse than expected. The color coding was indistinctive and the classifications were, for the most part, too loose.

Also new at this show was a new products wing carved out of the lower level of the west building. While most buyers liked being able to see new products in one place, sepa-

*(Continued on page 38)*
*(See show photos on page 4)*


Percent of Each Chain's Shopping Households Who Shop That Particular Discount Chain Regularly*
54.8%
53.4
47.5
Zodys
47.2
45.2
Target Stores
45.1
*Based on the number of households shopping each discount chain in the last six months.
Source: Los Angeles Times Marketing Research, July 1986

*Enters Philadelphia Market*

## Net Cost Club Joins Warehouse Fray

MONTGOMERYVILLE, Pa. — Net Cost Club (NCC) has become the newest company to enter the burgeoning membership warehouse field by opening here a store with 89,000 sq. ft. of selling space.

It's the first of four units planned for the Greater Philadelphia-Wilmington, Del., market, now the fifth largest in the nation. NCC's entry into the area could turn what had been an untapped market into a battleground for membership warehouse chains.

NCC has developed merchandising, operating and marketing features different from other membership warehouses. These include capturing UPC codes to reduce operating costs, stocking an extensive selection of truck tires, holding tri-annual auctions of goods that sell poorly and providing a number of free community services.

Competition for NCC, a privately held company, in the Greater Philadelphia market includes BJ's, which has a unit in Cherry Hill, N.J., and plans another in North Brunswick, N.J., and the Price Club, which may open stores there in 1987. Makro, a specialty membership warehouse open only to businesses, has one store in Langehorne, Pa., northeast of Philadelphia.

The trio of projected NCC outlets includes two industrial buildings to be recycled. One

*(Continued on page 37)*

## LA Chains Scrap for Share Of Ex-Gemco Customers

LOS ANGELES — If you were a Gemco customer in this market, where will *you* shop this time next year?

The turbulent southern California market, burial ground for White Front Stores, Fed-Mart and Zodys, once again has become a discounter graveyard.

And once again the chains left behind are attempting to lure customers of the deceased and increase their market share.

While the greater Los Angeles market remains in flux, K mart, Target and FEDCO are among the discount retail

*(Continued on page 38)*


0024037C DS
MS JEANNE LONG
CONGRESSIONAL INFOR SVC 1FE
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814



*Space Age Toys Power Holiday Sales —page 16*

*DSN Names DISC Award Winner —page 6*

# The Dry Goods Units Undergo Crash Revamp

ASTON, Pa. — The investor group that acquired in August The Dry Goods Inc., family apparel and soft homes chain from SCOA Inc. has completed a crash renovation of its seven stores.

Richard Kestenbaum, president, and George Nadel, chief executive officer, both formerly with Cohoes Specialty Stores, estimated the cost at "several million dollars." The renovation work was done while the stores were open and units closed only on the first Monday of November, followed by a grand reopening on Election Day.

Nearly half a million square feet of retailing space was redone, using 12-ft.-high steel shelving in place of walls. Stores were decorated in designer gray, mauve and black with red tile, with new fixtures and signs to create a more contemporary buying atmosphere.

A new IBM 4680 electronic cash register system, reportedly the first operational installation of its kind, was installed to speed checkout.

Dry Goods operates seven department stores, two in Philadelphia, three in Delaware and two in New Jersey. All but the most modern store, opened by SCOA in March, 1985, were renovated.

# Ames Adopts Poison Pill Anti-Takeover Defense

ROCKY HILL, Conn. — Ames Department Stores is offering shareholders the right to purchase preferred stock as a defense against "coercive or unfair takeover tactics."

Ames will offer investors the right to buy one share of newly issued preferred stock at $100 a share for each one hundred shares held as of Oct. 31. The rights, which expire Oct. 31, 1996, will be usable only if a person or group acquires ownership of 20% or more of the common shares or announces a tender or exchange offer aimed at acquiring 30% of Ames common.

Listed on the New York Stock Exchange, Ames has traded between $19 and $34 over the past year and was selling at $24 at press time.

Herbert Gilman, chairman and ceo of Ames, said "the plan is intended to protect the interests of shareholders in the event the company is confronted with coercive or unfair takover tactics." Gilman told shareholders that similar plans have been adopted by more than 300 companies.

Ames operates 315 discount department stores and 143 variety stores in 20 east coast and midwest states.

By year's end, Ames will have opened 17 new stores and expects to add 25 to 30 more in 1987.

The company reported sales of $1.1 billion for the 35-week period ended September 27, a gain of 36% from sales of $840 million for the 1985 period.

# Senators Urge Japanese to Delay Digital Auto Tape Recorder Imports

WASHINGTON — Several key Senate lawmakers are warning Japanese consumer electronics manufacturers to delay introducing new digital audio tape (DAT) recorders in United States retail outlets until Congress passes anti-piracy legislation.

Leading the Congressional crusade against the new state-of-the art machines, Senator John Danforth (R-Mo.) cautioned that the U.S. does not "intend to stand by and watch helplessly as its music community is decimated" by DATs.

The DAT recorders being readied for introduction in the U.S. market this fall will be capable of making "perfect" copies of prerecorded music.

Danforth has vowed to push for legislation when Congress reconvenes, mandating anti-piracy circuitry in these machines to prevent home-tapers from violating the rights of copyright holders.

Some industry officials fear that the as-yet undetermined costs of adding special circuitry could be enough to dampen consumer demand for DAT recorders.

Meanwhile, Danforth urged foreign DAT makers to "voluntarily" agree to insert copy-coder chips in their machines if shipped to the U.S. prior to passage of the anti-piracy bill.

Backing Danforth, Sen. Pete Wilson (R-Calif.) said "after all, it is in the best interest of the electronics manufacturers, who likewise depend on intellectual property protection to preserve the benefits of their own technological creativity, to uphold the values and respect the rights of intellectual property."

Noting that other countries are worried about DAT imports, Wilson said that the European Economic Community already told Japanese trade ministers that all DAT imports likely will have to have anti-piracy circuitry.

# TV Shopping Begins in San Diego

EL CAJON, Calif. — America's Shopping Channel (ASC) has moved its headquarters here as part of the launching of a teleshopping program on the Cox Cable TV system in San Diego.

ASC's 30,000-sq.-ft. headquarters also contain the production studio for its local teleshopping service on the San Diego cable TV system, which is the largest in the nation.

ASC also runs local TV shopping programs in New Orleans and Tulsa, Okla., and is set to begin teleshopping service early next year in Tidewater, Va.

Both the San Diego and New Orleans cable TV systems are owned by Cox Cable Communications, the fifth largest cable TV operator. The arrangement has led to trade speculation that Cox and ASC eventually may develop a teleshopping service for all the Cox-owned systems. Cox hasn't joined another shopping network.

ASC reaches 270,000 subscribers on the Cox cable TV system in San Diego, along with about 300,000 viewers on the New Orleans and Tulsa systems. The Tidewater market will add 134,000 more subscribers.

As a 24-hour local or "stand-alone" teleshopping service, ASC airs a locally produced program in each market, rather than broadcasting a national merchandising show. Customers obtain their merchandise from a local pick-up center. There are five in San Diego, four in New Orleans and three in Tulsa.

In order to compete with the national teleshopping companies, ASC pays one of the higher fees to cable systems carrying its program. Alan Berlin, vice president, said the fee is 7%. That compares with the usual 5%.

The teleshopping service's local orientation includes purchasing about 20% of its merchandise locally, with the remainder bought nationally. Much of the local items are goods that have great appeal in the market, such as merchandise with the logo of a local school or team, he said.

When it entered the San Diego market, ASC opened pickup centers at five locations: Chula Vista, National City, La Mesa, El Cajon and San Diego.

## QUIZ

*The DSN Quiz, testing your knowledge of news and trends in discount retailing covered in our previous two issues, appears on this page monthly. Check your answers with the key on page 37.*

*1. Crazy Eddie was the first traditional retailer to:*
*a) offer a TV merchandising program;*
*b) expand beyond current operating radius;*
*c) run the most advertising.*

*2. This man was named the new chairman and chief executive officer of F. W. Woolworth Co. Who is he?*
*a) Fred E. Hennig;*
*b) Harold E. Sells;*
*c) John W. Lynn.*

*3. In an effort to turn around sales, Indianapolis-based Danners initiated which of the following steps in its new merchandising strategy?*
*a) everyday low pricing;*
*b) reduction of overall advertising expenses;*
*c) decrease in number of circulars;*
*d) all of the above.*

*4. To increase its list of membership benefits, electronic retailer Comp-U-Card has introduced two additional services. What are they?*
*a) legal service and insurance;*
*b) insurance and an increase in monetary limits;*
*c) credit card protection and legal service.*

*5. How many new units did Kids Mart, which currently operates 270 stores, project having in the next five years?*
*a) 350;*
*b) 450;*
*c) 800.*

*6. According to a recent study, what area in housewares is projected to have the largest growth by 1990?*
*a) gourmet cookware;*
*b) china;*
*c) small appliances.*

*7. What discounter has acquired a new parent company, a new chairman and a new set of merchandising and performance directives?*
*a) Bradlees;*
*b) Caldor;*
*c) K Mart.*

*8. As a prelude to a full scale thrust of hypermarkets into the U.S., French-based international retailer Carrefour will test single units in which of the following markets?*
*a) Philadelphia and metro New York;*
*b) Chicago and metro New York;*
*c) Los Angeles and metro New York.*

*9. Launched by closeouter Consolidated Stores Corp. and Shopping Channels Inc., what was the name of the first teleshopping program aired exclusively on commercial UHF & VHF stations?*
*a) Shopping Program;*
*b) Shopping Channel;*
*c) Shopping Line.*

*10. What was Target's projected growth for 1991 in terms of total stores?*
*a) 323;*
*b) 410;*
*c) 482.*

**TV Retailers Push Apparel**

*Television home shopping services are featuring new competitive gimmicks to fight for the off-price apparel business. Shop Television Network, for example, uses celebrities Pat Boone and Beverly Sassoon to pitch its sales. At least three other teleshopping outfits and one off-price chain are selling discounted clothing on TV. See story page 13.*

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# Rapid Teleshopping Growth Spurs Major Restructuring at C.O.M.B.

MINNEAPOLIS — The rapid growth of Cable Value Network (CVN), a teleshopping service, has triggered a major restructuring of one of its parents, C.O.M.B. Inc., a closeout specialist.

And in another development, the second parent, a consortium of cable TV operators, added an 18th member, Viacom Cablevision, which leased to CVN satellite facilities that permit 24-hour broadcasting.

C.O.M.B., which owns 50% of CVN, restructured its operations to focus its future growth on its direct marketing business and its teleshopping interest.

C.O.M.B. chairman Ted Deikel said, "Our resources as a company will be directed toward supporting these two divisions." Some company buyers buy only for CVN, which uses a number of C.O.M.B. services and facilities.

Deikel said CVN, exclusively a cable TV teleshopping service, is "running several months ahead of its initial projections." It began broadcasting in April "and was to remain in a start-up mode until January 1987. Instead, CVN began 24-hour national cablecasting in September," one of only two companies to broadcast around the clock.

CVN was launched with an initial capital contribution of $1 million, half put up by C.O.M.B. and the rest by a number of multi-system cable TV operators (MSO).

The MSO consortium that owns the remaining CVN equity was completed when Viacom Cablevision joined the group as the 18th member. The consortium, which includes 14 of the top 20 cable system operators in the country, reaches a total of about 18.6 million subscribers.

Viacom, a division of Viacom International Inc., an entertainment conglomerate, also has leased transponder 12 on the Satcom IIIR satellite to CVN for its 24-hour-a-day broadcasts to replace the limited time available on a transponder leased from Turner Broadcasting Co. Viacom owns a number of other transponders that it uses to air such cable TV fare as Showtime, MTV, the Movie Channel and Nickelodeon.

CVN's format calls for segmented merchandising programs in which hosts present items and offer information on features of the products.

C.O.M.B.'s restructuring cost the company a one-time $4.5 million charge in the third quarter. It involved merging all the non-CVN business, the retail store, wholesale and mail order operations, into a direct marketing division, headed by George L. Walters. He became an executive vice president and president of direct marketing.

As part of the restructuring, C.O.M.B. plans to cut back the 47 stores it operates, retaining some as closeout units or "local cable shopping outlets."

*(Continued on page 37)*

# Isaac Departs Service: No Explanation Offered

*John Isaac*

NASHVILLE — John Isaac has left Service Merchandise, and Raymond Zimmerman, Service chairman and president, has assumed his duties as president of the catalog showroom division.

Service management gave no reason for Isaac's departure, nor did it say whether anyone would replace him as president of the 298-unit showroom division.

Catalog showrooms once again have become the core operation of financially troubled Service following its decision to divest its $281.7 million Mr. HOW warehouse home center division by the end of the year.

The catalog operation, however, has performed poorly, due to a combination of weak sales at the Service showrooms and the high cost of converting the acquired H. J. Wilson and Ellman's units to the Service format.

Service sales for the quarter ended Sept. 30 of $479.1 million rose 4.4% from $459 million, but comparable volume at the Service showrooms (excluding former Wilson and Ellman units) dipped approximately 1%. For the first nine months of the year, sales increased 16% to $1.4 billion from $1.2 billion.

The net loss from continuing operations, which exclude the Mr. HOW operation, in the September quarter widened to $12.4 million from $12 million, while in the nine month period losses jumped five-fold to $40.9 million from $8 million in the year earlier period.

# David Weis To Acquire Ohio Jewel Mart Chain

MONROEVILLE, Pa. — David Weis Jewelers & Distributors has agreed to acquire the Jewel Mart chain with four stores in Akron and Youngstown, Ohio.

The company plans to continue to run those units under the Jewel Mart banner. Its 23 David Weis jewelry stores and catalog showrooms are located in Pennsylvania, West Virginia and Ohio.

"With the acquisition of the Jewel Mart stores, David Weis may be the largest privately held catalog showroom chain in the country," said James Silberman, president of the chain.

It fits in well, added Joseph McLeish, vice president of merchandising, thanks to the similarity between our stores and the Jewel Mart stores, as well as the neighboring locations.

# Discounters Take Smaller Markups As Markdowns Rise, NMRI Reports

NEW YORK — The nation's discounters took smaller markups and bigger markdowns, while their turnover rates slumped overall during the last fiscal year, according to a study by the National Mass Retailing Institute.

The turnover rate was off in all but one of the 26 categories included in the group's annual *Mass Retailers' Merchandising Report*, conducted for the NMRI by Cornell University.

The survey covered 27 self-service discount chains, operating 3,162 stores with aggregate sales of $27.1 billion.

The apparel categories, which had shown strong turnover rates in the past fiscal year, showed slower turns in all areas. Girls' wear was off by 0.66 to 4.42 turns; boys' wear down by 0.47 to 3.76 turns, and infants' wear slowed by one full turn to 4.24, against 5.32 the previous fiscal year.

In women's clothing categories from dresses through sportswear, leisure and beachwear, turns slowed perceptibly, with only the lingerie, robes and sleepwear category (off 0.07) coming close to the pace of the preceding fiscal year.

Fabrics, notions and yarns turns fell almost by half, dropping to 2.41 turns from 4.7 the preceding year. Other significant declines were reported in candy, where two full turns were lost and in sporting goods, and lawn and garden, where turns slumped by one.

*(Continued on page 37)*

# FTC Orders Max Factor to Halt Discrimination in Its Pricing

WASHINGTON — Ignoring pleas by Federal Trade Commission chief Daniel Oliver—a vocal critic of the federal Robinson-Patman anti-price discrimination law—the FTC ordered Max Factor to stop offering discriminatory promotional allowances to large chain purchasers.

In an unusual dissenting statement, Oliver accused his fellow commissioners of "ignoring (their) obligation to act in the public interest" by insisting on an order that is certain to have "anti-competitive consequences."

"This Commission's record in enforcing the Robinson-Patman Act" has "worked staggering injury on consumers, to say nothing of small business such as Max Factor," Oliver charged.

By a vote of three to two, the commission late last month issued a consent order that forces Max Factor to make promotional allowances available on a proportionally equal basis to all retail chains that sell its cosmetics and beauty aids, as well as provide alternatives to retailers for whom its basic promotional plans are unusable.

Additionally, the Connecticut-based cosmetic company has been ordered to inform all retail customers about its promotional programs.

The Max Factor case began in 1979, when the FTC regional office in Los Angeles started a Robinson-Patman Act investigation of Max Factor's promotional allowances based upon what the company claimed were "stolen internal company documents."

After three years of investigation, the Los Angeles office and the FTC Bureau of Competition recommended closing the case. But in 1984, the commission rejected the recommendation and issued a formal complaint that the firm "discriminated against" particular retailers by not making promotional allowances available on proportionally equal terms to all of its retail customers, and "failed to offer alternative terms and conditions" to those customers unable to use basic promotional allowances.

A consent agreement was publicly announced by the commission, subject to a 60-day comment period. During the comment period, Max Factor criticized the consent order it signed, and argued that it should not be put into effect. Max Factor claimed that the underlying facts were ancient and pointed out that the company had gone through several changes in ownership and management since then.

Additionally, Max Factor said it is "today only a small and struggling factor in the intensely competitive U.S. cosmetics industry," and that the commission's order would cripple its ability to compete.

The commission's final decision in this case is an indication of where the commissioners stand on Robinson-Patman enforcement in view of the new chairman's repeated call for repeal of R-P anti-price discriminatory laws.

In his dissenting statement, Oliver questioned the commission's ruling in this case on the grounds that "the staff has uncovered no evidence that any allegedly disfavored buyer lost sales or was placed at a competitive disadvantage as a result of any conduct engaged in by Max Factor.

"By insisting on an order that is certain to have anti-competitive consequences. . . , the commission majority turns and retreats away from rational antitrust enforcement," Oliver said.

# Family Dollar Plans to Add 193 Units

MATTHEWS, N.C. — Family Dollar plans to open 193 new stores during its current fiscal year, which ends Aug. 31, 1987, pushing its store count to 1,300.

All those additional stores will follow a new, soft lines-oriented format the chain started testing earlier this year.

"The more prominent and attractive display of soft lines merchandise has produced encouraging initial sales results, without changing the merchandise mix," said Lewis E. Levine, president of the chain. With stores opening every week, store count had reached 1,140 earlier this month. "Our present plan is to open all new stores with this new format and, if the sales results continue to be positive, we will consider converting all existing stores to the new format beginning in January 1987."

Same store sales in Family Dollar stores were running virtually flat during the first two months (September and October) of fiscal 1987. This continues the pattern set during fiscal 1986.

Overall sales rose 19% to $487.7 million in fiscal 1986, due in part to new store openings. Net income increased 9% to $30.5 million. The year-end results also benefited from discontinuing the company's pension plan. The company reported a gain in income before taxes of $1.8 million.

Other highlights of fiscal 1986 include the opening of 187 stores, including the first stores in Illinois, Michigan and Oklahoma, the major expansion and of its distribution center in Matthews and construction commencement of the next expansion phase of the distribution center, which will increase its area 775,000 sq. ft. by the end of the current fiscal year. Expansions were financed with internal funds; the company owes no long-term or short-term debt.

Toys

# Toy Chains Rely on Space Age Items to Power Holiday Sales

*Nationwide DSN Report*

Toy chains hope that the traditional holiday sales surge will offset what generally has been a soft year so far for the industry.

Toys "R" Us, the sales leader, is one of the few chains to report strong figures going into the holiday season.

Many others, entering the Christmas season with flat or weak results to date, are pinning their expectations for a strong finish on the popularity of this year's space age winners, the Lazer Tag, Photon and Pfazer Force, along with old reliables, such as Barbie Doll in new dress.

**Leading Toy Chains**

| Chain (HQ state) | Volume (in Millions) Last Fiscal Year | Volume (in Millions) Previous Fiscal Year | Units 12/86 |
|---|---|---|---|
| Toys "R" Us (N.J.) | $1,976 | $1,701 | 338 |
| Child World (Mass.) | 513 | 436 | 134 |
| Kay Bee (Mass.) | 401 | 347 | 636 |
| Lionel Leisure (Pa.) | 246 | 225 | 68 |
| Greenman Bros. (N.Y.)** | 110 | 48 | 328 |
| K&K Toys (Va.) | 37 | 33* | NA |
| Karl's Toys (Calif.) | 23 | 18 | 26 |
| Toy King/Toys & Gifts Outlets (Fla.) | 18 | 30 | 56 |
| Toys Plus (Mo.) | 17 | NA | 34 |
| Hobby Center (Ohio) | 12 | 11 | 26 |

Source: DSN research

### TRU Sales Increase

Toys "R" Us, based in Roselle Park, N. J., showed sales for the third quarter of fiscal 1987 at $471.4 million, up 25.3% over the $376.1 million for the third quarter of the previous year.

Over a nine month period, TRU reported $1.266 billion, 20.3% more than the $1.0952 billion in net sales in the comparable nine months of last year. Same store sales were up 8.5% in the third quarter and rose 4.5% for the first nine months.

Few other toy chain executives could be as optimistic as TRU chairman and chief executive officer Charles Lazarus. "We are continuing to increase our market share from new store openings and from good comparable store increases," Lazarus said.

While final figures weren't in at press time, Lionel Leisure vice president and sales director Joel Weiner said that "third quarter sales have gone just about as anticipated and we expect to experience small increases over last year."

Like TRU, which added 139 stores in 1986, Philadelphia-based Lionel was on the march last year, opening 11 stores as well as modernizing and expanding several others.

At Toy King in Orlando, Fla., buyer Jim Fetty reported a flat early November, however, and said the only movement was in the "trendy items, particularly those that were marked down and well promoted."

Rather than thinking about expansion, Toy King was in a holding pattern, "waiting to see what the economy does and trying to get more volume out of existing operations," Fetty said.

At upscale Hobby Center in Holland, Ohio, vp and buyer Mary Beth Benore said she is looking forward to a strong holiday and said that signs were good. "Our third quarter was slow, but business began to pick up. August, September and October were good months. The customer has been holding back, but I expect a very good final quarter."

Meanwhile, customers are showing their preferences early. *DSN*'s survey of leading toy retailers found the Lazer Tag moving out of the stores well before the start of the gift buying season. The survey also found old reliables such as the Barbie Doll, dressed up with a few new flourishes, holding strong.

On the downside, the popularity of the Cabbage Patch gang apparently is wilting. Prices have been knocked down to $15 after manufacturer's rebate in many outlets and as low as $9.99 in one case, with a $5 coupon.

After a mostly arid third quarter, toy specialty chains were hoping that the Lazer Tag and its space age followers, Photon and Pfazer Force, would lead them into greener pastures in the year-end rush. The big problem is supply. Lazer Tag, sparked by ample promotion in print and on the air waves, has been in short supply for months and the demand is beginning to resemble the Cabbage Patch craze of a few years ago.

"We're expecting tremendous results from Lazer Tag, and we only hope we can meet the demand," said Weiner of Lionel Leisure. "There are also strong indications that electronic talking dolls may be a hot category from our early reports. There may be a question of availability with some of them also."

Weiner said he has spotted a lot of activity, "possibly a resurgence in video game systems. The category could be coming back, now that we have a new generation of kids. The new Atari 2600 came out this year in a more compact size and is selling well.

The Teddy Ruxpin talking doll is strong at Lionel and other chains, with several heavily promoting the toy.

Child World, based in Avon, Mass., recently ran sharp price promotions offering Teddy Ruxpin at $49.99, a $10 savings over the chain's regular price.

But Lazer Tag is the big one. Russ Gerald, ad manager for Karl's Toys in Los Angeles, said, "It sells out before our ad runs, and it's such a hot item, we should be able to hold our price at $59.99."

Hi, I'm Abearham
Buy $50 or more in any one day, at any A&S store and you can take me and Strauss the mouse home for just
9.99 Reg. $25.
And when you get us there, have the kids check out the Abearham Bear Coloring Contest. The big prize is 3½ foot version of me—Abearham! Or pick up an entry blank in Just for Kids at your A&S. No purchase necessary.
Mail your order to: Abraham and Strauss
P.O. Box 731
Brooklyn, NY
11202
Mail and phone orders filled on $10 or more (6.50 on cosmetics)

*What's hot and what's not is shown by current newspaper advertising. The 'in' toy this year is an electronic outer space set, be it Photon or Lazer Tag or Pfazer Force. Meanwhile, stores are phasing out a former doorbuster at bargain prices.*

# Highlights of Mass Merchandisers' Operating Results

| Department | Sales % of total store 1984-85 | 1985-86 | %-Point Change | Annual turns 1984-85 | 1985-86 | Change | Cumulative markup (%) 1984-85 | 1985-86 | %-Point Change | Markdown at retail (%) 1984-85 | 1985-86 | %-Point Change | Gross margin (%) 1984-85 | 1985-86 | %-Point Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Women's dresses | 0.92 | 1.03 | +0.11 | 4.84 | 4.32 | – 0.52 | 46.84 | 46.57 | – 0.27 | 19.51 | 20.86 | +1.36 | 36.59 | 34.55 | – 2.04 |
| Lingerie, robes & sleepwear | 2.44 | 2.29 | –0.15 | 4.48 | 3.78 | – 0.07 | 44.22 | 44.05 | – 0.17 | 10.30 | 11.83 | +1.53 | 38.72 | 37.79 | – 0.93 |
| Hosiery | 1.55 | 1.51 | –0.04 | 4.99 | 4.30 | – 0.69 | 40.54 | 40.64 | + 0.10 | 7.10 | 9.08 | +1.98 | 36.39 | 35.42 | – 0.97 |
| Sports, leisure & beachwear | 6.12 | 6.44 | +0.32 | 6.24 | 5.61 | – 0.62 | 46.57 | 44.61 | – 1.96 | 17.09 | 17.41 | +0.32 | 37.42 | 36.83 | – 0.59 |
| Handbags and accessories | 1.46 | 1.36 | +0.10 | 4.88 | 4.11 | – 0.77 | 50.32 | 29.79 | –20.53 | 14.33 | 15.22 | +0.89 | 42.93 | 42.41 | – 0.52 |
| Jewelry and watches | 2.20 | 2.16 | –0.04 | 3.05 | 2.18 | – 0.87 | 48.96 | 49.68 | + 0.72 | 15.36 | 18.58 | +3.22 | 39.28 | 39.12 | – 0.16 |
| Men's wear | 6.89 | 6.52 | –0.37 | 4.53 | 3.87 | – 0.66 | 42.54 | 41.41 | – 1.13 | 13.71 | 14.93 | +1.22 | 34.50 | 32.75 | – 1.75 |
| Girls' wear | 2.27 | 2.35 | +0.08 | 4.67 | 4.42 | – 0.25 | 45.28 | 44.93 | – 0.35 | 15.85 | 16.20 | +0.35 | 36.66 | 35.28 | – 1.38 |
| Boys' wear | 2.43 | 2.58 | +0.15 | 4.23 | 3.76 | – 0.47 | 42.57 | 42.68 | + 0.11 | 13.63 | 16.38 | +2.75 | 34.52 | 33.25 | – 1.27 |
| Infants' wear | 2.83 | 2.83 | 0.00 | 5.32 | 4.24 | – 1.08 | 37.15 | 35.72 | – 1.43 | 11.02 | 12.04 | +1.02 | 30.11 | 27.46 | – 2.65 |
| Juvenile furniture | 0.59 | 0.50 | –0.09 | 3.43 | 3.15 | – 0.28 | 39.77 | 38.12 | – 1.65 | 13.01 | 12.91 | –0.10 | 31.67 | 28.55 | – 3.12 |
| Shoes | 3.37 | 3.40 | +0.03 | 3.88 | 2.88 | – 1.00 | 49.62 | 49.27 | – 0.35 | 14.75 | 19.12 | +4.37 | 42.45 | 39.51 | – 2.94 |
| Domestics | 4.49 | 4.35 | –0.14 | 2.75 | 2.65 | – 0.10 | 39.71 | 39.39 | – 0.32 | 12.22 | 13.52 | +1.30 | 32.75 | 32.17 | – 0.58 |
| Fabrics, notions and yarns | 2.78 | 2.82 | +0.04 | 4.70 | 2.41 | – 2.29 | 39.59 | 40.40 | + 0.81 | 10.16 | 12.04 | +1.88 | 34.55 | 34.80 | + 0.25 |
| Housewares | 5.11 | 5.40 | +0.29 | 0.29 | 3.30 | – 0.14 | 37.36 | 36.78 | – 0.58 | 11.70 | 13.42 | +1.72 | 30.46 | 29.11 | – 1.35 |
| Hardware | 3.03 | 2.98 | –0.05 | 3.21 | 2.67 | – 0.54 | 36.76 | 35.96 | – 0.08 | 8.65 | 9.75 | +1.10 | 30.36 | 29.47 | – 0.89 |
| Paints & accessories | 1.16 | 1.15 | –0.01 | 2.72 | 2.39 | – 0.33 | 38.94 | 38.44 | – 0.50 | 9.84 | 12.82 | +2.98 | 32.89 | 21.23 | –11.66 |
| Toys and games | 6.43 | 6.49 | +0.06 | 4.34 | 3.52 | – 0.82 | 32.83 | 31.48 | – 1.35 | 7.17 | 9.02 | +1.85 | 28.10 | 25.05 | – 3.05 |
| Sporting goods | 3.49 | 3.34 | –0.15 | 3.74 | 2.67 | – 0.07 | 31.51 | 31.21 | – 0.30 | 8.84 | 9.45 | +0.61 | 26.42 | 25.24 | – 1.18 |
| Traffic appliances | 2.13 | 2.26 | +0.13 | 4.74 | 3.80 | – 0.94 | 28.54 | 22.26 | – 6.28 | 8.98 | 8.67 | –0.28 | 23.38 | 15.66 | – 7.72 |
| Sight/sound appliances | 4.03 | 3.98 | –0.05 | 3.61 | 3.01 | – 0.60 | 24.84 | 22.64 | – 2.20 | 10.13 | 9.00 | –1.93 | 16.59 | 15.02 | – 1.57 |
| Photo supplies | 1.63 | 1.59 | –0.04 | 4.61 | 4.01 | – 0.60 | 22.00 | 21.10 | – 0.90 | 7.39 | 7.00 | –0.39 | 15.95 | 15.63 | – 0.32 |
| Candy | 3.76 | 3.85 | +0.09 | 10.97 | 8.88 | – 2.09 | 21.83 | 22.85 | + 1.02 | 6.41 | 7.38 | +0.97 | 16.45 | 17.53 | + 1.08 |
| Stationery & greeting cards | 3.14 | 3.19 | +0.05 | 4.44 | 3.76 | – 0.68 | 42.93 | 42.89 | – 0.04 | 6.66 | 9.33 | +2.67 | 39.48 | 37.80 | – 1.68 |
| Drugs and cosmetics | 7.98 | 8.61 | +0.63 | 5.26 | 4.32 | – 0.94 | 24.38 | 23.65 | – 0.73 | 5.81 | 6.14 | +0.33 | 19.57 | 19.28 | – 0.29 |
| Lawn and garden | 2.43 | 2.68 | +0.25 | 5.40 | 4.37 | – 1.03 | 31.81 | 34.03 | + 2.22 | 13.73 | 15.10 | +1.37 | 22.01 | 23.62 | + 1.61 |
| Auto accessories | 3.94 | 3.85 | –0.09 | 4.20 | 3.43 | – 0.77 | 31.31 | 31.01 | – 0.30 | 8.08 | 8.80 | +0.72 | 25.55 | 24.31 | – 1.24 |

Source: NMRI Mass Retailers Merchandising Report

# Discounters' Markups Dip, Markdowns Rise, Turns Slump

*(Continued from page 3)*

Discounters trimmed markups in all but a handful of the categories surveyed. The deepest slash in markups came in handbags and accessories, down more than 20 percentage points to 29.79% against markups averaging more than 50% the preceding fiscal year.

Markups increased by one-tenth of a percentage point in hosiery to 40.64%; nearly three-fourths of a percentage point to 49.68% for jewelry and watches; 0.11% of a point to 42.68% for boys' wear; four-fifths of a point to 40.40% for fabrics, notions and wear; 1.02 percentage points to 22.85% in candy, and 2.22 percentage points to 34.03% for lawn and garden.

At the same time, discounters took much deeper markdowns. Markdown at retail for shoes increased 4.37%; for jewelry and watches, 3.22%; boys' wear, 2.75%, and paint and accessories, 2.98%. Only on infants' wear, juvenile appliances, sight and sound appliances, photo supplies, and candy did stores cut their markdown rate.

Discounters improved their gross margins in only three departments. Gross margins rose 1.61 percentage points to 23.62% for lawn and garden items; 1.08 percentage points to 17.53 for candy; and a quarter-point to 34.80% for fabrics, notions and yarns.

Sharp reductions in the gross margin hit paints and accessories, down by 11.66 percentage points to 21.23% from almost 33% the previous fiscal year.

Other drastic gross margin decreases were shown by sight and sound appliances, off 7.72 percentage points to 15.66%; by juvenile furniture, down 3.12 points; toys and games, down by 3.05 points; shoes, off 2.94 points, and infants' wear, off 2.65 points.

# Net Cost Club Enters Warehouse Chain Battle in Philadelpia

*(Continued from page 1)*

will become a 104,000-sq.-ft. store in northeast Philadelphia scheduled to open in early summer '87 and the other a 110,000-sq.-ft. unit in Wilmington expected for the fall '87. The third will be a new 110,000-sq.-ft. structure in Cherry Hill, N.J., due to open in early '88 about seven miles from the BJ's unit.

The NCC unit on Route 63 in Montgomeryville features 89,000 sq.ft. of selling space, plus a 33,000-sq.-ft. mezzanine used as a storage area and company headquarters.

Major owners of the company are chairman Albert Hoffman and his four sons, one of whom, Marc, is president, while other sons, Jeff, Fred and David, serve as vice presidents of the family operation.

The other Hoffman family ventures are the Hoffman Tire Co., a $140 million-a-year tire wholesaler, and part interest in a tire store chain.

Albert Hoffman said he got into the membership warehouse field because at age 62 he wanted to return from retirement. "I undid my three-year retirement, visited a number of clubs and decided to do the same."

NCC buyers, only one of whom has any retailing experience, bought more than $3 million worth of goods to launch the first store, Hoffman said. "We shopped other clubs to see where we should be postured."

The membership warehouse opened with about 2,700 sku's and aims to stock 3,500 sku's after it expands its refrigerator case. "We aren't carrying as much food as we planned because our case wasn't large enough," he said.

**Hard to Beat Supermarkets**

Food will account for about 30%-32% of the mix "because its more difficult to get net prices on food lower than supermarkets. These retailers buy in large quantities, so clubs work on a short markup on this merchandise."

The Montgomeryville NCC carries a larger nonfood mix that the industry's average, he added, because of the better markup on such merchandise. The membership warehouse's gross margin will fall in line with the industry's range of 8% to 12%, but Hoffman said it was too early to know the exact figure.

Using the tire expertise of its founders, NCC has "put a heavy emphasis on tires, including service bays to do our own mounting. We also offer truck tires in all sizes, while most other clubs only carry small camper sizes," he said.

NCC also handles white goods from five vendors, General Electric, Whirlpool, Emerson, White Westinghouse and Kelvinator, with about 75% obtained directly from the manufacturer, he said.

In operations, NCC has reduced its checkout labor cost by eliminating the caller-packer member of the two-person checkout team used by all other membership warehouses. This person calls out the merchandise identification number on goods while packing.

At its checkouts, NCC uses wand scanners to pick up the manufacturer UPC codes on premarked goods, rather than company-assigned digits. This system allows one clerk to ring up purchases as well as pack.

NCC also prints UPC tickets for goods that aren't premarked by the vendor, such as imports.

The company's purchase orders for palletized, trailer-load shipments include a special UPC number assigned by manufactures to facilitate receiving at the store. NCC will issue a UPC code for use on purchase orders when vendors don't, Hoffman said.

Membership and community services include a travel club, one-hour film development from an in-store mini film lab, free refreshments from a milk shake bar and a popcorn machine, monthly visits by an optometrist to tighten eyeglass frames and free blood pressure tests.

NCC's marketing also includes three unusual promotions. One is a corner featuring unusual merchandise, Hoffman said. The first item on display was a casket. The second is a consignment area where members can sell an item like an antique at no charge other than contributing 10% to a local hospital.

The third promotion will be an auction, called Buyers' Mistake Night, held three times a year, to clear out stock that sold poorly.

*—Arthur Markowitz*

**Answers:** *1.a, 2.b, 3.d, 4.c, 5.b, 6.a, 7.b, 8.a, 9.c, 10.c.*

# Growth Prompts C.O.M.B. To Focus on TV Marketing

*(Continued from page 3)*

An executive said that "we have stores that are doing well and we will keep those. We are exploring all alternatives for the others."

The stores performing worse than anticipated are single units in smaller markets. C.O.M.B. has store clusters in such markets as Minneapolis, St. Louis, St. Paul and Kansas City but only single units in places like Fargo, N.D., LaCrosse, Wis., Sioux Falls, S.D., Fort Dodge, Cedar Rapids and Davenport, Iowa, and Rochester, Austin, Waseca and Hutchinson, Minn.

C.O.M.B.'s management interest in CVN is exercised through Peter Barton, who was named a corporate executive vp and president of the teleshopping operation.

CVN first was established as a joint venture between C.O.M.B. and Tele-Communications Inc., the leading MSO. Subsequently, other cable TV operators joined by purchasing a share of TCI's 50% interest. At the same time, C.O.M.B. agreed to offer the MSOs warrants to purchase its stock.

C.O.M.B. is scheduled to issue 7.8 million warrants in April 1987, with the number that each MSO receives dependent on the number of cable subscribers receiving CVN programming when the warrants are issued. The warrants can be exercised from November 1987 through December 1988.

# Discount Store News®

*THE NEWSPAPER OF DISCOUNT RETAILING*

VOL. 25, NO. 24 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | $2 per copy | December 8, 1986

*K mart's Special Synergy*

## Solving the Growth Puzzle

*With 2,200 K mart stores and $22.4 billion in sales, the Troy, Mich.-based retailing giant has embarked upon an ambitious five-year program that includes diversification into specialty retailing while expanding discount store assortments and operating efficiencies. K mart is positioning its [illegible] long-range plan to become the top U.S. retailer by 1990.*


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# Crazy Eddie Expands Into Gold Jewelry

EDISON, N.J. — Crazy Eddie, a New York area consumer electronics retailer, has expanded its product line to include 14 carat gold jewelry, ranging between $20 to $3,500.

The concept to sell jewelry was first tested in July in the Hartsdale, N. Y., store and is now available in the Cherry Hill, N. J., store.

"We felt this expansion fit in well into our merchandising strategy," said Harry Shalom, director of jewelry operations at its Edison, N. J., headquarters. "Jewelry fits right in with our other products and the customers we attract in that everyone, no matter what income level, buys consumer electronics and jewelry or gives these items as gifts."

Shalom said that Crazy Eddie is encouraged by the sales and interest generated by the two stores already selling the jewelry and plans to add jewelry in other stores.

"We will, however, move slowly to make sure we hire experienced salespeople, who are knowledgeable about fine jewelry," said Shalom.

In terms of pricing, Crazy Eddie will be competitive and offer the same policy that it does with electronics.

For example, if the jewelry item can be compared with a particular brand name and model number, it will match the best price, Shalom said. Other than that, there is no way to compare and give a price guarantee for fine gold jewelry because every piece is different, he said.

"If we do find a way, it will be done," Shalom added. "But, we won't trade down for the sake of price. We want to offer the same fine quality that Crazy Eddie customers are used to and will not, for example, put a lesser diamond in a piece of fine gold jewelry."

# Larger Pension Contributions Included in New State Laws

WASHINGTON — Discount retailers will be faced with bigger contributions to employee benefits programs because of a flurry of 1986 state legislation, just one of a number of changes, good and bad, for retailers.

A *Discount Store News* review of bills enacted by state lawmakers this year shows that four states passed laws requiring employers to allow former employees and their dependents to remain temporarily in group health care programs. The state laws are similar to a provision of the 1985 Federal Consolidated Omnibus Reconciliation Act (COBRA) mandating continued health benefits for some former employees and their families. Although ex-employees will be paying the premiums, industry sources complain that administrative costs will be burdensome.

Under Tennessee law, employers must allow dependents due to be terminated from health care because of divorce or death of a spouse to remain in the program for 15 months. Maine lawmakers established a six-month period of health coverage "under certain circumstances," such as temporary layoff or work-related injury. Georgia and Alabama both designated continued family health benefits for three months after termination unless the worker was fired for cause.

Employee health benefits also were extended in Kentucky where legislation was passed requiring that group health policies cover mental illness. In New Hampshire, lawmakers mandated health plans for some part-time employees.

On the plus side for retailers, legislators in 10 states enacted laws setting stiffer bad check penalties. More than a dozen bills were passed giving business owners increased redress against customers whose checks bounce. Penalties range from a slap on the wrist in California (the customer is liable for the cost of mailing the written demand for payment) to "damages" of triple the check amount (with a $500 cap and a $100 minimum) in Kansas. Other states that established bad check charges by law were Rhode Island, Washington, Louisiana, Florida, Maryland, Georgia, New York and Kentucky.

Also affecting discount store owners was 1986 state legislation in the following categories:

- Sales Tax—The rate was increased in Kansas and Nebraska to 4% and in Virginia to 3.5%. Utah delayed cutting its sales tax originally set for July 1, 1987. Oklahoma imposed tax on sales within the state by out-of-state vendors.
- False Advertising—Rhode Island enacted two laws defining deceptive advertising as making "false or misleading statements and improper use

*(Continued on page 219)*

# Sacramento Library Provides Mail Order Catalog Shopping

CARMICHAEL, Calif. — Shoppers in this Sacramento suburb now can research and buy merchandise from mail order catalogs in their local library while they check references in Standard & Poor's or the Encyclopedia Britannica.

Warren Harris thought of the new wrinkle in merchandising in 1981 when he asked a Sacramento librarian where the catalogs were and was told they weren't to be had.

By September 1985, he created what he calls, "The Kiosk: Mail Order Catalog Center," and persuaded the Fair Oaks-Orangeville library to install his kiosk.

Harris' concept is simple. He leases a freestanding unit to the library for about $5,000 a year and charges catalog houses $18 a year to be included. He refunds the library $1 for each order placed at the Kiosk. He had been taking a percentage on orders but gave that up because it required more bookkeeping than it was worth. Harris also offers libraries the opportunity to purchase a kiosk for $9,000.

At this point, there's only one installation, but Harris expects to place a catalog center in a library in Schaumburg, Ill., an affluent Chicago suburb, in January and at the Yakoda Air Force Base near Tokyo soon afterward.

"There are thousands of American soldiers and their families there, demanding U. S. merchandise," he said.

His kiosk contains 1,100 bound catalogs. Buyers can send orders, either through Harris, who forwards them to the catalog address, or directly to the catalog company.

Sacramento generated 3,300 orders in its first year, he said. He expects Schaumburg to produce some 2,000 responses for the catalog firms.

*Shoppers at this suburban Sacramento library have an unusual reference center, a mail order catalog kiosk with nearly 1,100 indexed catalogs. The unit will go into two more libraries in 1987.*

## QUIZ

*This DSN quiz will test your knowledge of K mart, the nation's largest discount retailer, featured in this special year-end issue beginning on page 27. Check your answers with the key on page 219.*

*1. What is the name of the book concept in K mart discount stores which is operated by Waldenbooks?*
*a) Reader's Choice;*
*b) Books and More;*
*c) Reader's Market.*

*2. What merchandise category is Pay Less expanding with the help of the discount stores' expertise?*
*a) hardware;*
*b) apparel;*
*c) sporting goods.*

*3. What is K mart's newest advertising theme?*
*a) K mart, Yes, K mart;*
*b) America's Favorite Store;*
*c) The Saving Place.*

*4. Who operates K mart's leased shoe department?*
*a) SCOA;*
*b) Meldisco;*
*c) Spencer.*

*5. Who is the chairman and chief executive officer of the Troy, Mich.-based retailer?*
*a) Sam Leftwich;*
*b) Joseph Antonini;*
*c) Bernard Fauber.*

*6. In what year did the first K mart store open?*
*a) 1964;*
*b) 1962;*
*c) 1958.*

*7. What is the name of the deep discounter operated by K mart Canada?*
*a) Family Bargain;*
*b) Bargain Bernie's;*
*c) Bargain Harold's.*

*8. In what year, and in what city, did Sebastian Spering Kresge open his first "five and ten" store?*
*a) 1887 in Kansas City;*
*b) 1899 in Detroit;*
*c) 1889 in New York City.*

*9. In addition to the sale of its cafeteria chains, what specialty division did K mart recently announce it will sell?*
*a) Kresge;*
*b) Designer Depot;*
*c) Builders Square.*

*10. What is K mart's newest men's wear line?*
*a) Campus;*
*b) Fashion First;*
*c) Hunter's Glen.*

*11. In 1985, what were K mart's total sales?*
*a) $20.4 billion;*
*b) $22.4 billion;*
*c) $24.4 billion.*

*12. What is the approximate number of K mart discount stores?*
*a) 2,750;*
*b) 2,200;*
*c) 2,400.*

# Cabbage Patch Kids Ruling May Threaten Gray Market

WASHINGTON — The International Trade Commission took another swipe at the so-called "gray market," issuing a controversial "exclusion order" restricting unauthorized "parallel imports" of Coleco's once-hot selling Cabbage Patch Kids dolls.

That ruling marks the Commission's first decision on the legality of gray market merchandise since President Reagan overturned a similar ITC exclusion order seeking to ban parallel imports of Duracell alkaline batteries last year.

In issuing its new Cabbage Patch ruling, the agency upheld charges by Coleco and the dolls' trademark holder, Original Appalachian Artworks, that unauthorized parallel imports of these toys constitute an unfair practice in violation of the U.S. Tariff Act.

The complaint that led to the order surfaced a year ago as Coleco and OAA sought to curb an influx of gray market Cabbage Patch Kids when

*(Continued on page 219)*

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**1986 Salary Survey***

| Position | Sales in Millions | | | |
|---|---|---|---|---|
| | Under $150 | $150-$400 | $400-$750 | Over $750 |
| Chairman of the Board | $167,000 | $246,200 | $315,200 | $420,100 |
| President | 190,200 | 225,100 | 279,000 | 347,200 |
| Sr. Admin. Exec. | 100,000 | 188,200 | 148,800 | 191,000 |
| Sr. Merch. Exec. | 96,000 | 101,000 | 126,500 | 227,000 |
| Sr. Operations Exec. | 70,000 | 85,600 | 134,000 | 152,600 |
| Sr. Financial Exec. | 94,200 | 85,700 | 123,500 | 132,400 |
| Sr. Human Resources Exec. | 36,500 | 70,100 | 117,300 | 121,500 |
| Top Real Estate Officer | 58,000 | 60,100 | 109,100 | 113,200 |
| Treasurer | 95,400 | 55,000 | 71,000 | 104,000 |
| Controller | 42,000 | 52,900 | 64,700 | 78,900 |
| Sr. Legal Exec. | N/A | 70,000 | 94,100 | 126,000 |
| Sr. Advertising Exec. | 51,200 | 63,500 | 79,100 | 103,500 |

*Base salary as of August 1986. Source: NMRI

# Ardan, Boardman Catalogers Are Holding Liquidation Sales

BOSTON — Gordon Brothers, a wholesale jewelry firm located here, is in the process of holding liquidation sales to dissolve two companies, Ardan Inc., and Boardman Ltd., said Gordon's managing partner, Philip Gordon.

Carlson Companies, which owns Ardan, last spring closed all but the jewelry and giftware departments in 41 units of its former catalog showroom chain. Only 17 Ardan jewelry outlets remained when Carlson, based along with Ardan in Minneapolis, contracted with Gordon Brothers to liquidate the division completely , Gordon said.

Unlike the case with Ardan, Gordon Brothers, itself, owns Boardman. The catalog showroom chain was forced to file for Chapter 11 in December 1985, and it operated 10 units in September, when Gordon won approval from the U.S. Bankruptcy Court, Northern District of New York, to purchase the company.

"Our original intention was to see if Boardman could be turned around and to reassess our plans in January," Gordon said. "There were too many unexpected problems, however," he added. "We had to take advantage of Christmas sales to liquidate."

Thomas D. Jardine, a Carlson spokesman, said Ardan "was not meeting our corporate goals." Repeating an announcement by the company last spring, he said Carlson will focus on its five main operating groups—travel, hospitality, sales promotion, employee motivation and real estate.

The liquidation sale at one Ardan unit in Cedar Rapids, Iowa, has been completed, Gordon said. Sales in the remaining 16 stores began in November and will continue through the holiday season. The remaining units are located in Iowa, Kansas, Nebraska, Texas and California.

Cost of the inventory in the 17 units is in excess of $20 million, Gordon reported. Gordon Brothers has guaranteed Carlson a minimum return and a percentage of the gross from any sales over that amount, he said.

Ardan's merchandise has been discounted 30% to 60% below its already discounted prices, Gordon continued. In other words, prices are 53% to 78% below those suggested by manufacturers, he said. Both the Ardan and Boardman sales are being advertised in local newspapers.

All of the Ardan sites were leased and will be sub-leased, if necessary, until the leases expire, Jardine said.

Founded in 1885 as a jewelry retailer, Ardan had 68 showrooms three years ago when Carlson began paring back to what executives then said would be a "core of profitable" units. Ardan had estimated sales of over $200 million from the 46 showrooms in

*(Continued on page 219)*

# Major Chain Chairmen Average $420,100 Pay

*Nationwide DSN Report*

Annual base salaries for a chairman of the board in the industry's largest volume mass market discount store chains averaged $420,100 a year, as of August 1986, reported a recent survey conducted by the National Mass Retailing Institute (NMRI).

The survey divides store managers into four groups based on store sales volume—annual sales volume under $150 million; from $150 to $400 million; from $400 to $750 million, and over $750 million.

The chairmen's average salaries in chains with annual sales of over $750 million predictably were higher than those of presidents in similar-sized chains, who averaged $347,200. But chairmen in companies with annual sales of under $150 million earned lower average salaries as of August 1986 than the presidents of these companies, or $167,000 for the chairmen, compared to $190,200 for the presidents.

In the 1985-86 NMRI survey, salaries for chairmen in chains with annual sales of $150 million to $400 million averaged $246,200 and presidents, $225,100. Equivalent figures for companies with an annual sales volume of $400 million to $750 million were: chairmen, $315,200, and presidents, $279,000.

In general, average salaries for top management were correspondingly higher in chains with higher sales volumes.

*(Continued on page 216)*

***Doubts Wisdom of Antitrust***

# FTC Chief Attacks Price Fixing Ban

WASHINGTON — Federal Trade Commission chairman Daniel Oliver is continuing his public attack on the nation's 96-year-old antitrust laws that protect discount retailers from resale price maintenance conspiracies and other trade restraint schemes.

In a speech to the New England Antitrust Conference in late October, Oliver said that over the past two decades, several trends have come about to "create doubt over the wisdom of antitrust."

"We have learned . . . that resale price maintenance can be pro-competitive, that even agreements among competitors regarding price can have benefits [and] that many private antitrust cases are brought for the purpose of stifling competition and deterring efficient distribution practices," Oliver said.

The new FTC chief said resale price maintenance is "useful in avoiding free-riding by some on the information provided by others" and tying arrangements (under which retailers are forced to buy unwanted goods) are "found to be justifiable for protecting quality and brand names, and enhancing safety."

Oliver questioned the courts' ability to distinguish between pro-competitive and anti-competitive behavior, claiming that the courts "are adhering doggedly to some per se rules long after they've been shown to be in error.

During the conference, held at Harvard University, Oliver also cited a study showing that FTC antitrust enforcement in

*(Continued on page 221)*

# Discounters Hire Check Approval Services to Cut Bad Check Losses

*Nationwide DSN Report*

Despite predictions to the contrary by the banking industry, national statistics indicate Americans are writing more personal checks than ever.

As consumer preference for paying by check increases, the obvious problem for retailers, including discount stores, is how to guarantee that a check won't bounce. Another factor is the speed with which a check can be approved at the check-out. For many discounters the solution has been to subscribe to a check approval service.

K mart uses the country's second-largest check approval service, Tampa, Fla.-based Telecredit, in about 25% of its 2,071 units. P. C. Way, K mart's director of loss prevention, said the chain is researching the possibility of expanding the service to more stores. Decisions will be made on a regional basis, he said.

The major considerations are check-out speed, losses from bad checks, cost of the service and the ability to accept a larger number of checks, Way said. K mart stores lacking the service do accept checks—but only from their local market area. "The check approval service allows a store to accept a check from anywhere in the country," Way said.

Telecredit's services cost K mart, based in Troy, Mich., less than credit cards—but cost is still a factor, Way continued. Roughly one-third of K mart's sales are paid for with checks, he added.

Vince Staranski, controller at Stereo Discounters, a 28-unit Baltimore-based electronics specialty chain, also uses a check approval service. "I'm not going to turn a sale away because the customer wants to give me a check," he said. "But if we had to cover every bad check ourselves, the losses would be too great." Checks accounted for about 40% of Stereo Discounters' $60 million in sales last year, Staranski said. The company subscribes to J B S Associates, a Ringwood, N. J.-based check approval firm.

The cost of these services varies with the subscriber's check volume, average amount of purchase and loss record, check approval service executives said.

For Stereo Discounters, the cost of JBS services is 1.6% of the sales, slightly higher than its cost on bank-issued credit cards but much lower than the cost on American Express charges, Staranski said.

"Some of our competitors won't accept checks at all," said Bob Sussman, chief financial officer for the 22-unit Brick Church Appliances chain based in Orange, N. J. "We consider our ability to accept checks with ease a definite competitive advantage."

Brick Church subscribes to Denver-based Telecheck, the nation's largest check approval service with more than 50% of market share. Telecheck services cost Brick Church slightly less than bank-issued credit cards. "We have a low rate based on our loss record. We take bad checks very personally," Sussman said.

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# Barnes & Noble Acquires 779-Unit B. Dalton Chain

MINNEAPOLIS — Dayton Hudson will sell its 779-unit B. Dalton chain to Barnes & Noble, the nation's leading book discounter.

The transaction, which should be complete by the end of December, had been expected since earlier this year when Dayton Hudson disclosed intentions to spin off B. Dalton.

Boake A. Sells, Dayton Hudson president, said that "the corporation is pleased with the agreement," but Dayton Hudson declined to discuss details. It said only that "it expects the sale to result in a substantial gain."

Analysts estimate the sale price at between $275 million and $300 million. B. Dalton Bookseller is a profitable operation whose earnings of about $15 million on sales of $338 million last year were topped in books only by K mart's Waldenbooks division, which rang up sales of $565 million.

New York-based Barnes & Noble, operating 35 stores in the Metro New York market, Boston and Philadelphia, logged sales of $225 million in 1985.

Leonard Riggio, owner of Barnes & Noble, said he would run the chains separately under their own names. B. Dalton's "center of gravity will remain in Minneapolis," he said, "while B & N's will remain in New York."

Riggio said that Barnes & Noble, a pioneer of book discounting, would continue to sell books exclusively at discount prices, while B. Dalton would continue to sell the major portion of its books at suggested retail price.

B. Dalton, under pressure from other discounters including Barnes & Noble, recently began discounting some titles, and it is expected to continue cut-price sales of some best sellers in competitive situations.

Riggio said he looked forward to using the systems and technology that run B. Dalton. "The chain has the finest computer system ever deployed," he said.

# Tighter Cost Controls Attempt to Bolster Bottom Line

*This article, which was researched and written by Arthur Young, a Big Eight accounting firm based in New York, analyzes and compares financial data from K mart, Wal-Mart and Zayre.*

NEW YORK — With more than an 80% penetration of the general merchandise market and nearly 4,000 general merchandise and specialty retail stores, K mart appears to have reached a turning point in its discount store career. Fully-matured and successful in the discount and general merchandise market, where is K mart going and how successful will it or can it expect to be?

To answer these questions, this analysis will compare K mart with two of its competitors, Wal-Mart and Zayre, as well as examine K mart's financial results for its fiscal year ended January 1986, against fiscal 1985.

***K mart has invested $40 million in a data and video satellite communications network connecting 2,100 stores. The chain realizes it must tighten up and modernize operations with high-tech systems and better inventory control.***

Wal-Mart and Zayre were chosen as comparisons because they and K mart have a high penetration in the discount store market segment, while each retailer's position in the corporate life cycle is slightly different. While K mart can be considered mature, Wal-Mart continues its expansion role, and Zayre remains the relative newcomer in terms of significant sales growth and profits.

Where is K mart going? Current history may help in answering this question. In the last few years, K mart has acquired several specialty retailers, Waldenbooks, Builders Square, Pay Less drug stores and Bargain Harold's, moving away from its traditional general merchandise focus.

In early 1986, with a veritable portfolio of retail businesses, K mart's presence was in six different market segments: off-price apparel, books, drug stores, food service, discount, general merchandise, and do-it-yourself home improvement. By November, 1986, however, K mart departed from the off-price apparel and food service businesses by announcing its planned sale of certain unprofitable or marginally profitable units, Designer Depot, an off-price apparel chain with 79 stores, and two cafeteria operations, Furr's and Bishop's Buffets.

How has this strategy, diversifying with more than 1,500 specialty stores and an excess of 2,300 general merchandise stores, affected the bottom line?

Obviously, the entire diversification strategy was not profitable as shown by the disposal of K mart's off-price apparel and food businesses. Examination of the 1986 income statement shows that net revenues grew only 6.2% as compared to 1985's figure of 13.4%. This sales growth was mostly attributable to the specialty store segment and not the traditional discount general merchandise category. Furthermore, much of this revenue growth comes as a result of an increase in specialty retail revenues caused by acquisitions being included for a full year in 1986 while only being partially included in 1985.

K mart experienced the lowest compounded revenue growth over a five-year period as compared to Wal-Mart and Zayre, with K mart at approximately 8%, Wal-Mart at 31% and Zayre at 20%. But revenues are only part of the story.

Net income growth for K mart from continuing operations, as compared to Wal-Mart and Zayre, was the weakest, declining 5.6%. Net income as a percentage of sales for all three companies, however, decreased from last year's reported figures.

What are the reasons for the poor bottom line performance? First, the

*(Continued on page 40)*

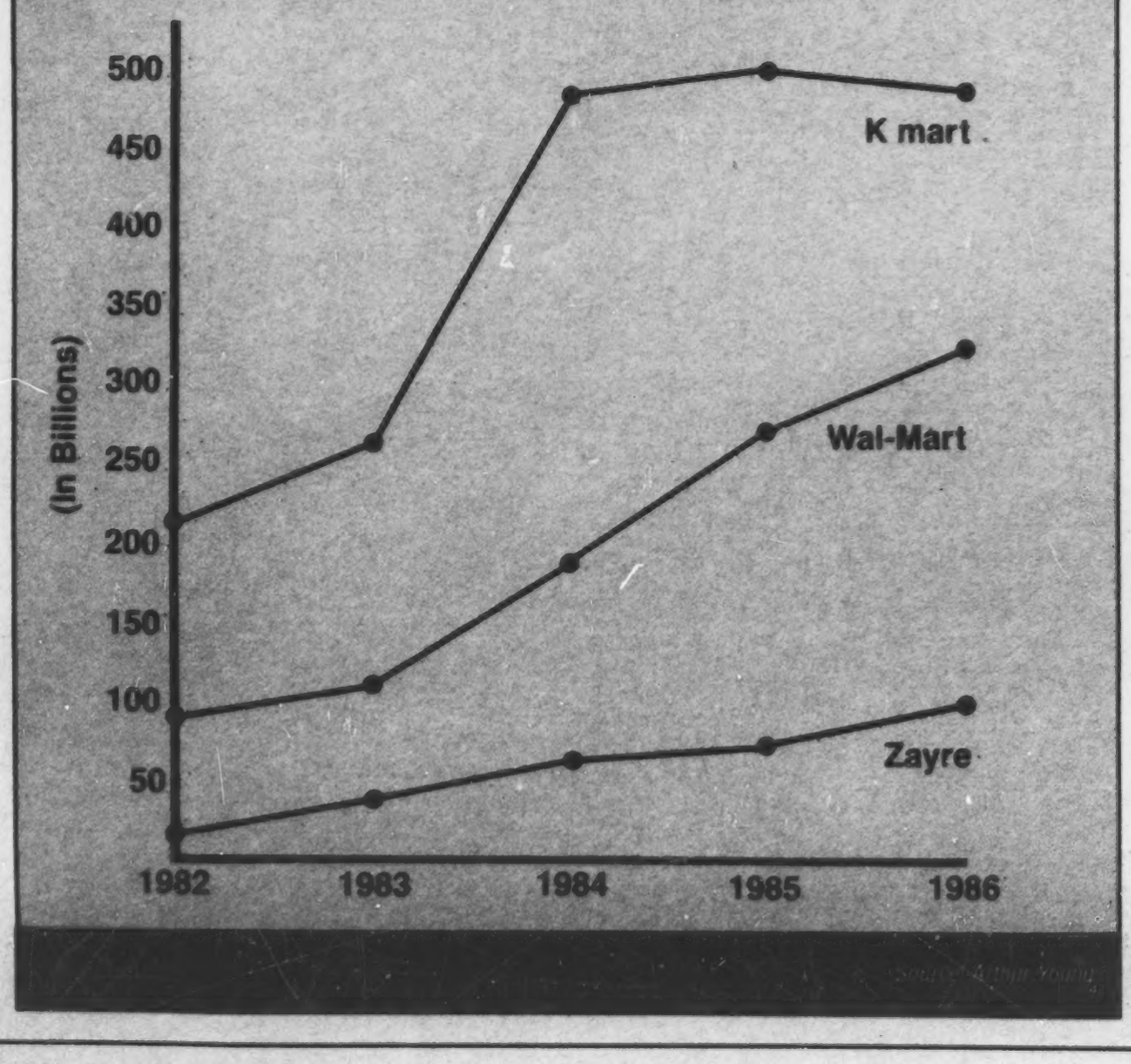
## Financial Comparison K mart, Wal-Mart, Zayre

| | K mart | | | Wal-Mart | | | Zayre | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fiscal 1985 | Fiscal 1986 | % Change | Fiscal 1985 | Fiscal 1986 | % Change | Fiscal 1985 | Fiscal 1986 | % Change |
| Net revenues (millions) | $21,408 | $22,745 | 6.2% | $6,453 | $8,507 | 31.8% | $3,191 | $4,036 | 26.5% |
| Net income (millions)[a] | $499 | $471 | – 5.6 | $271 | $327 | 20.7 | $80 | $95 | 18.8 |
| Net income as a % of sales | 2.3% | 2.1% | –11.2 | 4.2% | 3.8% | – 8.5 | 2.5% | 2.4% | – 6.1 |
| Net income per share[b] | $3.84 | $3.63 | – 5.5 | $0.96 | $1.16 | 20.8 | $2.80 | $3.23 | 15.4 |
| Book value end of yr.[c] | $25.87 | $25.98 | 0.4 | $3.50 | $4.53 | 29.4 | $17.87 | 20.67 | 15.7 |
| Current ratio | 1.83 | 1.78 | – 2.7 | 1.89 | 1.79 | – 5.3 | 1.86 | 1.68 | – 9.7 |
| Sales/inventory | 4.6 | 4.9 | 6.5 | 6.1 | 6.1 | 0.0 | 5.2 | 4.7 | – 9.6 |
| Debt/equity[d] | 0.9 | 0.97 | 7.8 | 0.5 | 0.6 | 20.0 | 0.44 | 0.52 | 18.2 |
| Return on assets | 5.4% | 4.7% | –13.0 | 12.3% | 10.5% | –14.6 | 6.7% | 6.0% | –10.4 |
| Return on equity | 15.4% | 14.39% | – 6.7 | 27.5% | 25.60% | – 6.9 | 15.7% | 15.68% | 0.1 |
| Assets/equity | 2.86 | 3.05 | 6.6 | 2.24 | 2.43 | 8.5 | 2.32 | 2.61 | 12.5 |
| Dividends per share | 1.24 | 1.4 | 12.9 | 0.105 | 0.14 | 33.3 | 0.29 | 0.48 | 65.5 |
| Dividends/net income | 32.3% | 38.6% | 19.5 | 10.9% | 12.0% | 10.1 | 10.4% | 14.8% | 42.3 |

[a] K mart excludes income from discontinued operations: $250 million [b] K mart excludes discontinued operations at $1.90 per share [c] Zayre book value based on fully diluted common shares [d] Deferred income taxes not included in long-term liabilities

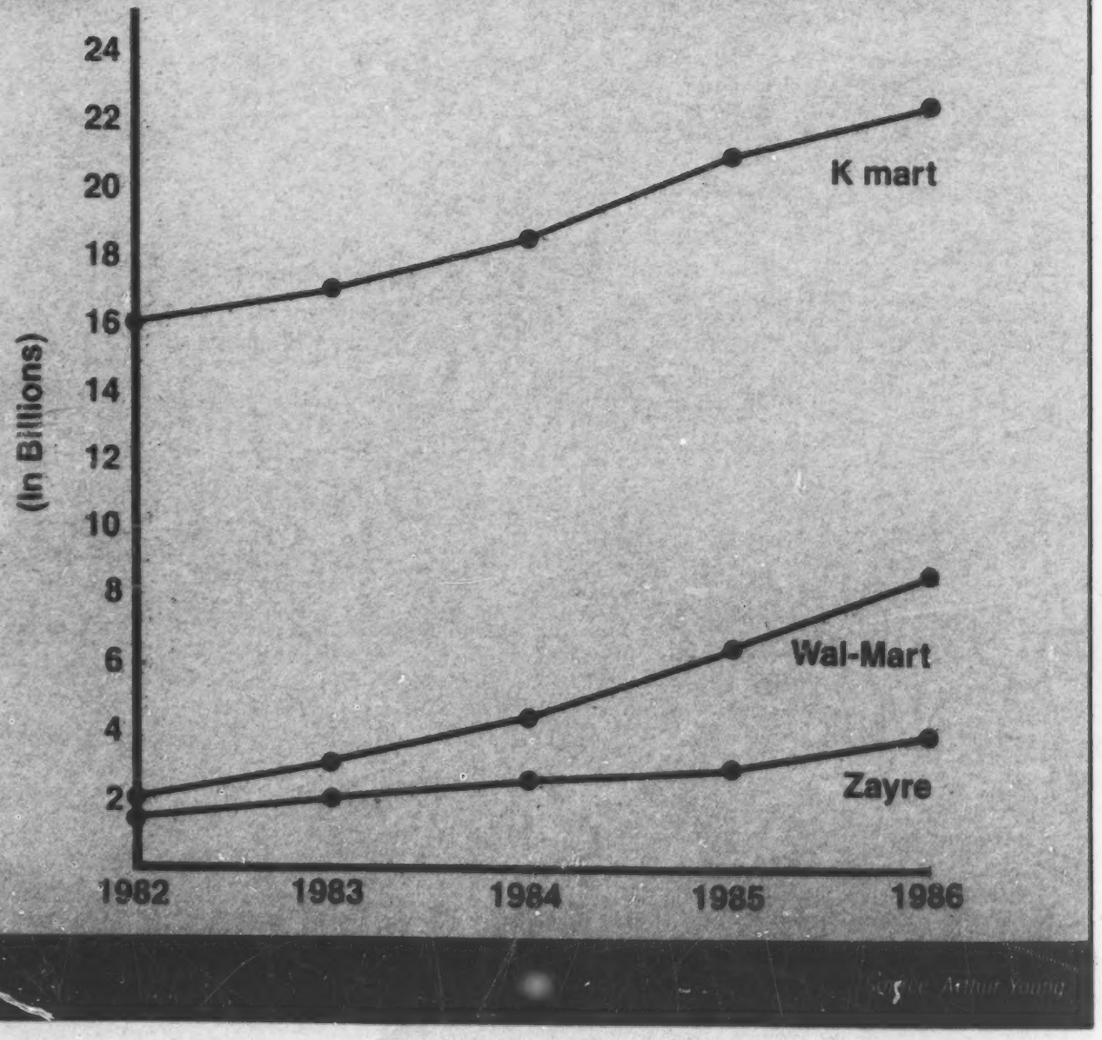
Source: Arthur Young

## Net Income 5-Year Growth Patterns




Source: Arthur Young

## 5-Year Sales Growth Patterns




Source: Arthur Young

# With Reservations, Analysts Look Favorably on Stock

NEW YORK — While Wall Street wizards may be less than wildly infatuated with K mart, generally they see hopeful signs ahead. Securities analysts who follow the company most often rate K mart either a "neutral" or "buy" stock.

Stock analysts hold two different views about the chain. Some cite the company as a metaphor for the discount industry at large, while others point to particular aspects of K mart, such as its push toward specialty retailing, that set it apart from the pack.

Since the Troy, Mich.-based behemoth dominates the discounting industry by sheer numbers of stores, analysts who like discounting are likely to recommend K mart. Those who see the industry in trouble are quick to pull the plug on K mart.

"We're positive on K mart when we're positive on the general merchandise category," said Daniel Barry, vice president of retailing at Kidder Peabody & Co. Inc. He currently rates the stock "neutral."

"The [near-term] key to K mart revolves around whether the consumer is all bought out," added Jack Trachtman, senior security analyst at Gruntal & Co. Because Trachtman believes the consumer "is not giving up on retailing even though he's spent a lot of money lately on cars," he rates the stock a "buy," particularly for investors looking for long-term appreciation.

As for discounting as a category, Joseph Ronning, analyst at Brown Bros. Harriman & Co. added: "For years we've clearly been seeing a segmentation between the low-end, medium, and upscale discounters. That this is happening at all indicates the field has considerable strength."

The observers expect new tax laws to bolster the industry in general—and K mart in particular. "Not only will K mart's key moderate-income customer enjoy the greatest percentage tax cut and thus have more spendable income," predicted Edward A. Weller at E.F. Hutton, "but also the company will enjoy a tax cut of its own," significantly raising income by 1988. Hutton recommends "aggressive purchase" of K mart shares for both short- and long-term accounts.

***'For years we've clearly been seeing a segmentation between the low-end, medium, and upscale discounters. That this is happening at all indicates the field has considerable strength.'***

—Joseph Ronning, analyst, Brown Bros. Harriman & Co.

The other prevailing view recognizes K mart as an individual company with quirks that differentiate it from other discounters. As a group, the investment community's analysis falls into three categories: K mart's treatment of its general merchandise stores, the company's head-long move into specialty retailing and management.

In its discount stores, "K mart will be a tougher competitor in the future," predicted Hutton's Weller. He said management's emphasis on offering better quality merchandise without increasing markups would appeal to the chain's value-oriented customer. Wall Street also praises the chain's heightened attention to high-margin software.

"K mart is making very good strides toward modernization, both on a physical level, with renovating stores, and on a technological level, with point-of-sale (POS) machines," added Ronning at Brown Bros. "These innovations will pay dividends in the future."

K mart executives have budgeted $500 million to put POS terminals in all stores by the end of 1989. Anticipated payoffs include a 1.5% drop in S G & A expenses, 25% faster service at the registers, and faster stock replenishments. In the past, some observers have grumbled that inventory management was poor. "In the last two years, the company has not had as good control on inventory as necessary," said Gruntal's Trachtman, who cited computerization and general tightening on the corporate level as greatly alleviating the problem.

While hailing these moves, some critics see the improvements as too little, too late. "They're renovating stores at the rate of 200 a year," said Terence J. McEvoy, vice president, research, at Smith Barney, Harris Upham. "That means with 2,200 stores they get to start over in 10 years."

Without a doubt, K mart's move into specialty retailing has caught the attention of the analysts like no other strategy has in recent years. The chain's announced plans call for adding just 150 discount stores—but 840 specialty stores by 1990. By the end of the decade, management projects 18% of sales and profits will be generated by divisions including bookstores, home improvement units, drug stores and other acquisitions it may still make.

Some analysts wonder if K mart's management can operate as capably in narrower niches as in general merchandising. Said Smith Barney's McEvoy: "In the drug store division, they're pushing a small company too hard. They bought the book chain at the top at a time when Dayton Hudson is getting out of the business—

***'K mart is making very good strides toward modernization, both on a physical level, with renovating stores, and on a technological level, with point-of-sale machines.'***

—Joseph Ronning, analyst, Brown Bros. Harriman & Co.

and Dayton Hudson isn't made up of dumb people. As far as Builders Square, I don't think they have a clue as to how much money they're going to lose."

Nonetheless, most analysts assume a cautiously optimistic attitude toward K mart's entry into the specialty arena. Because of its very size, "K mart is a mature entity with limited growth possibility," said Barry of

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# Tighter Cost Controls Attempt to Boost Profit Margins

*(Continued from page 36)*

positive contributor, cost of goods sold, improved slightly for K mart over last fiscal year from 71.28% to 71.14% due to a better merchandise mix and sales of higher margin items. But this improvement was offset by an increase in selling, general and administrative costs, which increased from 20.7% as a percentage of sales to 21.3% due to employee compensation and benefits increases and increases in depreciation and amortization expenses from the refurbishing programs of K mart-owned stores.

***K mart is the nation's largest discounter and must be watched closely. Will its upscale look, specialty retailing strategy and technology capture further sales and manage operations economically and efficiently?***

Interest expense also cut into K mart's bottom line at 1.7% of sales, against 1.6% in the prior year. This was caused by increased borrowings incurred to pay for acquisitions.

How has the diversification strategy affected the balance sheet? In terms of the balance sheet, K mart's debt/equity ratio rose to .97 from .9 over last fiscal year, while Zayre and Wal-Mart's debt/equity ratios remained in the .5 to .6 range. K mart registered the lowest percentage change at 7.8%, however, compared to 20% and 18.2% for Wal-Mart and Zayre. K mart's current ratio dipped to 1.78 from 1.83.

K mart experienced the lowest return on assets at 4.7%, down from 5.4%, compared to Wal-Mart's 10.5% and Zayre's 6.0%.

K mart's return on investment dropped from 15% to 14%, while Zayre remained constant at about 16% and Wal-Mart slipped from about 27.5% to 25.6%.

(Use of the extended Du Pont equation (net income/sales x sales/assets x total assets/equity) helps to explain K mart's decline in return. In 1985, ROE was 15%—(2.4%)(2.27)(2.86); in 1986, ROE was 15%—(2.1%)(2.24)(3.05).

K mart's profit margin (net income/sales) is down from 2.3% to 2.1%, pinpointing the further need for expense containment as the sales portion of this ratio grew while net income did not. Asset turnover has remained about the same, 2.27 vs. 2.24. Leverage, as shown by the ratio total assets/equity, has increased since K mart was able to expand its asset base though it didn't increase its equity base.

In summary, K mart continues to add to its asset base with increased borrowings in order to finance its diversification and upgrading of company owned discount stores. For this strategy to pay off, K mart must experience an increase in the bottom line. Because costs are eating into revenues generated, a healthy profit margin with the concomitant increase in equity is not resulting.

Operationally speaking, K mart sees areas for improvement. In 1985, the company began a five-year automation program as a move towards improving its systems. K mart has invested $40 million in a data and video satellite communications network connecting 2,100 stores via Skystar data network. An attempt at tighter inventory control can be seen in the fact that merchandise inventories were down 1.1% for the fiscal year ended 1986. K mart recognizes that it must tighten up and modernize its operations through high-tech systems and better inventory control.

K mart's cash reserves are up 27.4% in 1986, from $492 million to $627 million. Cash and short-term investments to current assets for K mart, Wal-Mart and Zayre for 1986 were 16.65%, 9.77% and 7.35%, respectively, while cash and short-term investments to total assets were 9.2%, 5.6% and 4.6%.

Regardless of what the numbers indicate, K mart is the nation's largest discounter and must be watched closely. Will its upscale new look, specialty retailing strategy and new technology capture further sales and help to manage operations more economically and efficiently? Will K mart continue to divest itself of specialty retailers to improve its diversification strategy? Or will the chain look to acquire other specialty retailers or possibly begin to experiment with other internal concepts?

**K mart Income Statement as a Per Cent of Sales**

| | Fiscal 1985 | Fiscal 1986 | % Change |
|---|---|---|---|
| Sales | 100.00% | 100.00% | 0% |
| Less: | | | |
| Cost of goods sold | 71.28 | 71.14 | – 0.20 |
| SG & A | 20.68 | 21.30 | 2.90 |
| Advertising | 2.59 | 2.49 | – 3.81 |
| Interest costs | | | |
| Debt | 0.69 | 0.90 | 23.81 |
| Capital leases | 0.90 | 0.84 | – 7.36 |
| Net income before taxes | 3.86 | 3.32 | – 16.08 |
| Net income after taxes | 2.33 | 2.07 | – 12.56 |

Source: Arthur Young